

D.P.U. 94-113

Application of Eastern Edison Company, under the provisions of the Company's tariff, M.D.P.U. 245, for approval by the Department of Public Utilities of changes in the Company's Purchased Power Cost Adjustment E-Factor.

APPEARANCE: V. Denise Saunders, Esq.
McDermott, Will & Emery
75 State Street
Boston, Massachusetts 02109-1807
FOR: EASTERN EDISON COMPANY
Applicant

I. INTRODUCTION

On June 2, 1994, pursuant to G.L. c. 164, § 94G and 220 C.M.R. 8.00 et seq., Eastern Edison Company ("EECo" or "Company") applied to the Department of Public Utilities ("Department") for approval to implement an increase in its purchased power cost adjustment ("PPCA") to replace its existing PPCA Factor E-8. The increase, designated E-8R, is based on an increase in EECo's purchased capacity demand rate with Montaup Electric Company ("Montaup"). The Company also requested approval for a decrease in its PPCA to replace its existing PPCA Factor E-5R-C. The decrease, designated E-9, is designed to refund amounts associated with a decrease in Montaup's wholesale base demand rate. The Company requested that both changes, which result in a net decrease in the PPCA, be applicable on a bills rendered basis commencing on and after July 1, 1994. The matter was docketed as D.P.U. 94-113.

Pursuant to notice duly issued, a public hearing on the Company's application was held on June 21, 1994 at the Department's offices in Boston. Notice of the hearing was published by the Company in the Fall River Herald News, the Quincy Patriot Ledger, the Brockton Enterprise, and the Boston Herald. The Company also complied with the requirement to mail a copy of the notice of the hearing to all persons with whom the Company has special retail contracts that do

not incorporate a filed rate. No petitions for leave to intervene were filed.

At the hearing, the Company sponsored one witness: David R. Stearns, senior analyst in the rate department of Eastern Utility Associates Service Corporation ("EUASC"). The Company submitted two exhibits: (1) Exhibit EE-1, a multi-page document entitled "Purchased Power Cost Adjustment Filing Factor E-8R," which includes the prefiled testimony of Mr. Stearns, seven schedules, and two attachments; and (2) Exhibit EE-2, a multi-page document entitled "Purchase Power Cost Adjustment Filing Factor E-9," which includes the prefiled testimony of Mr. Stearns, seven schedules, and two attachments.

EECo is a wholly owned subsidiary of Eastern Utilities Associates ("EUA"), a utility holding company. EUA's other subsidiaries, affiliates of EECo, include Blackstone Valley ("Blackstone") in Rhode Island, Newport Electric Corporation ("Newport") in Rhode Island, and EUASC, which provides engineering, technical, and other services for the EUA companies. Montaup is a wholly owned subsidiary of EECo and supplies power to EECo, Blackstone, Newport, and certain municipal electric utilities. EECo purchases all of its power requirements at wholesale from Montaup pursuant to rates regulated by the Federal Energy Regulatory Commission ("FERC"). Thus, EECo does not own or

operate any power generation units of its own. EEC_o serves, on average, 204,000 customers in its service territory, which includes over twenty cities and towns in southeastern Massachusetts.

II. BACKGROUND

EEC_o's PPCA is designed to recover Montaup's demand-related charges to EEC_o. The PPCA is derived from two components: (1) Montaup's base demand charge; and (2) Montaup's purchased capacity demand charge.

Montaup recovers the cost of power it generates through a FERC-approved demand rate. However, Montaup also seeks alternate sources from which to purchase power in order to meet the contracted power demands of its affiliates. As a result, each year Montaup solicits cost estimates from alternate power suppliers. These estimates of annual cost are the basis of the purchased capacity adjustment charge ("PCAC").

III. THE COMPANY'S PROPOSED PPCA E-8R

On May 26, 1994, FERC accepted for filing, Montaup's M-14 wholesale rate filing ("M-14 filing"), designated as FERC Docket ER94-1062-000¹ (Exh. EE-1, at 3 and Attachment 1). Incorporated in Montaup's filing is a revision of the 1994 PCAC that was originally filed

¹ The Department is an intervenor in this FERC proceeding.

in FERC Docket ER94-96-000 and approved by the FERC (id. at 3).

EECo's proposed PPCA factor E-8R of \$0.00236 per kilowatthour ("KWH") represents an increase of \$0.00193 per KWH from the present PPCA factor E-8 of \$0.00043 per KWH (id. at 2). Mr. Stearns indicated that two factors impact the proposed PPCA E-8R factor (id. at 3). First, pursuant to the terms of the M-14 filing, Newport has become an all-requirements customer of Montaup (id.). When Montaup's 1994 PCAC rate originally was calculated, Newport was a contract demand customer of Montaup, and met the balance of its requirements through purchased power contracts with other suppliers, and its own generation (id.). Pursuant to the M-14 filing, Montaup must assume the contracts for purchased power that Newport previously held, causing the increase in the PCAC rate (Tr. at 9). Conversely, Mr. Stearns stated that the revised 1994 PCAC rate reflects the increase in Newport's monthly M-rate billing demand from 40 megawatts ("MW") per month to approximately 90 MW per month, so that there are more MW over which Montaup's purchased power costs are spread (id. at 9; RR-DPU-1). This partially offsets the increase in the PCAC rate (id.).

Second, according to the proposed M-14 design methodology, only the kilowatt ("KW") demands within the initial block of the M-rate customers' monthly billing demand will be used for purposes of calculating the PCAC rate (Exh. EE-1, at 4). The Company contends

that this change is beneficial to both Montaup and its customers because (1) it is consistent with Montaup's proposed marginal cost-based rate design, as described below, and (2) there will be greater revenue stability, thereby reducing the potential for overrecovery or underrecovery of purchased power costs by Montaup (RR-DPU-2; Tr. at 10-11).

The incremental cost of purchased power associated with Montaup's 1994 M-14 PCAC rate over the level of purchased capacity currently included in EEC's electric rates is \$1.32349 per KW (Exh. EE-1, at Sch. 2). This amount is then multiplied by the total May 1993-April 1994 initial block billing demand of 4,513,140 KW (id.). Finally, this product is divided by total May 1993-April 1994 sales of 2,527,350,935 KWH, resulting in the proposed PPCA factor E-8R of \$0.00236 per KWH (id.).

IV. THE COMPANY'S PROPOSED E-9 FACTOR

In its M-14 filing, Montaup proposed to decrease its total annual revenue requirement by approximately \$10 million (Exh. EE-2, at 33; Tr. at 14). As a result of the M-14 filing, the decrement between the amount of Montaup base demand rate recovery currently in EEC's base rates and the reduced base demand charges to EEC from Montaup is \$10,466,209 (Exh. EE-2, at Schs. 2-5; RR-DPU-3). This amount, divided by 1991 sales of 2,429,672,486 KWH, results in the Company's proposed PPCA factor E-9 credit of \$0.00431.

Along with the base revenue requirement decrease, Montaup proposed to restructure the M-rate to incorporate a tail block demand charge of \$7.59583 per KW and an initial block demand charge of \$12.32777 per KW instead of a flat demand charge (Exh. EE-2, at Sch. 3; Tr. at 14). According to the Company, the tail block is designed to recover the marginal cost of service as determined by the marginal cost-of-service study in the M-14 filing, while the initial block is designed to recover all other embedded costs in Montaup's cost of service (Tr. at 13-14). EEC0 maintains that Montaup's proposed marginal cost-based rate design provides more appropriate price signals to retail companies and their customers (id.).

V. FINDINGS

Based on the foregoing, the Department finds:

1. that the Company's proposed increase in its purchased power cost adjustment factor, which reflects EEC0's increase in demand costs under its wholesale tariff with Montaup, is acceptable, pending the outcome of FERC Docket ER 94-1062-000 (Table 1 is attached to this Order); and
2. that the Company's proposed decrease in its purchased power cost adjustment factor, which reflects a decrease in Montaup's base demand charges to EEC0, is acceptable, pending the outcome of FERC Docket ER 94-1062-000 (Table 2 is attached to this Order).

VI. ORDER

Accordingly, after due notice, hearing and consideration, it is

ORDERED: That Eastern Edison Company's proposed Purchased Power Cost Adjustment Factor E-8R be and hereby is allowed; and it is

FURTHER ORDERED: That Eastern Edison Company's proposed Purchased Power Cost Adjustment Factor E-9 be and hereby is allowed; and it is

FURTHER ORDERED: That a Purchased Power Cost Adjustment Factor of (\$0.00195) per kilowatthour is permitted to become effective with respect to bills rendered on and after July 1, 1994, and shall be applied as a uniform charge to each kilowatthour sold on the applicable rates that are subject to the Company's purchased power cost adjustment provisions.

By Order of the Department,

Kenneth Gordon
Chairman

Barbara Kates-Garnick
Commissioner

Mary Clark Webster
Commissioner